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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )	CASE NO. AVU-E-15-05
OF AVISTA CORPORATION FOR THE )	CASE NO. AVU-G-15-01
AUTHORITY TO INCREASE ITS RATES )	
AND CHARGES FOR ELECTRIC AND )	DIRECT TESTIMONY
NATURAL GAS SERVICE TO ELECTRIC )	OF PATRICK D. EHRBAR
AND NATURAL GAS CUSTOMERS IN THE )	IN SUPPORT OF THE
STATE OF IDAHO )	STIPULATION AND
)	SETTLEMENT

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business  
3 address.

4 A. My name is Patrick D. Ehrbar and I am employed  
5 as the Manager of Rates and Tariffs for Avista Utilities  
6 ("Company" or "Avista"), at 1411 East Mission Avenue,  
7 Spokane, Washington.

8 Q. Have you previously filed direct testimony in  
9 this proceeding?

10 A. Yes. My testimony in this proceeding covered  
11 the spread of the proposed electric and natural gas  
12 revenue increases among the Company's electric and  
13 natural gas general service schedules. My testimony also  
14 described the changes to the rates within the Company's  
15 electric and natural gas service schedules, as well as  
16 the Company's proposed electric and natural gas Fixed  
17 Cost Adjustment Mechanisms.

18 Q. What is the scope of this pre-filed testimony?

19 A. The purpose of my testimony is to describe and  
20 support the non-revenue requirement portions of the  
21 Stipulation and Settlement ("Stipulation"), filed on  
22 October 16, 2015 between the Staff of the Idaho Public  
23 Utilities Commission ("Staff"), Clearwater Paper  
24 Corporation ("Clearwater"), Idaho Forest Group, LLC

1 ("Idaho Forest"), the Community Action Partnership  
2 Association of Idaho ("CAPAI"), the Idaho Conservation  
3 League ("Conservation League"), the Snake River Alliance  
4 ("Snake River") and the Company. These entities are  
5 collectively referred to as the "Parties," and represent  
6 several parties in the above-referenced cases.

7 In my testimony I will explain the following  
8 Settlement components:

- 9 1. Rate Spread and Rate Design
- 10 2. Fixed Cost Adjustment Mechanisms
- 11 3. Other Settlement Items

12 I will also provide an overview of the Company's customer  
13 service programs.

14 **Q. Are you sponsoring any exhibits?**

15 A. No, I am not. Company witness Ms. Andrews is  
16 sponsoring Exhibit No. 1, which is a copy of the  
17 Stipulation and Settlement filed on October 16, 2015,  
18 with the Commission.

19

20 **II. RATE SPREAD & RATE DESIGN**

21 **Q. Please explain the settlement terms relating to**  
22 **cost of service.**

23 A. For electric operations, the Company prepared a  
24 cost of service analysis using a system load factor

1 method of classifying production costs, allocating 100%  
2 of transmission costs to demand, and allocating  
3 transmission costs on a twelve-month basis. For  
4 settlement purposes, the Parties agreed to use a pro-rata  
5 allocation based on the Company's proposed 25% move  
6 towards unity for purposes of spreading the revised  
7 electric revenue requirement, while not agreeing on any  
8 particular cost of service methodology.

9 For natural gas operations, the Company proposed  
10 that all rate schedules be moved approximately 33%  
11 towards unity. For settlement purposes, the Parties  
12 agreed to use a pro-rata allocation of the Company's  
13 natural gas rate spread percentages from its original  
14 filing for purposes of spreading the revised revenue  
15 requirement.

16 **Q. How did the Stipulation address rate design?**

17 A. For settlement purposes, the Parties have  
18 agreed that the revenue requirement for each electric  
19 and natural gas service schedule would be applied as a  
20 uniform percentage increase to each volumetric energy  
21 rate, as shown in Appendix D of the Stipulation provided  
22 as Ms. Andrew's Exhibit No. 1. While there would be no  
23 change to the residential electric Schedule 1 monthly  
24 basic charge, the Parties agreed that the natural gas

1 Schedule 101 monthly basic charge would increase by  
2 \$1.00 per month, from \$4.25 to \$5.25.

3 Appendix D of the Stipulation (Andrews Exhibit No.  
4 1) provides a summary of the current and proposed rates  
5 and charges for electric and natural gas service.

6 **Q. Would you please explain how the Stipulation**  
7 **addresses the present electric rebate customers are**  
8 **receiving in 2015.**

9 A. Yes. Through rate Schedule 97, customers are  
10 receiving a rebate of \$0.00091 per kWh for 2015  
11 (approximately \$2.8 million). This rebate rate was  
12 first approved in the Company's 2012 general rate case,  
13 Case No. AVU-E-12-08.

14 As a part of the settlement stipulation approved by  
15 the Commission in Case No. AVU-E-14-05, the rebate was  
16 extended through December 31, 2015 using the 2013  
17 electric earnings sharing deferral.

18 For 2014, Avista deferred approximately \$5.6  
19 million under the electric earnings sharing. The Parties  
20 have agreed to use the \$5.6 million deferral balance  
21 from 2014 and extend the Schedule 97 rebate rate for  
22 2016 and 2017. This information is shown on Appendix E  
23 to the Settlement Stipulation (Andrews Exhibit No. 1).

1           **Q. Please explain how the Stipulation addresses**  
2 **the present natural gas rebate customers are receiving**  
3 **in 2015.**

4           A. Through rate Schedule 197, customers are  
5 receiving a rebate of \$0.01489 per therm through  
6 December 31, 2015 (approximately \$1.2 million). This  
7 rebate rate was first approved in the Company's 2012  
8 general rate case, Case No. AVU-G-12-07.

9           As a part of the settlement stipulation approved by  
10 the Commission in Case No. AVU-G-14-01, the rebate rate  
11 was extended for 2015 using the 2013 natural gas  
12 earnings sharing deferral, as well as the Schedule 191  
13 Natural Gas Energy Efficiency funding balance.

14           For 2014, Avista deferred approximately \$0.2  
15 million under the natural gas earnings sharing. The  
16 Parties have agreed to use the \$0.2 million natural gas  
17 deferral balance from 2014 to partially offset the  
18 expiration of the \$1.2 million rebate that will occur on  
19 January 1, 2016. This information is shown on Appendix  
20 E to the Settlement Stipulation (Andrews Exhibit No. 1).

21           **Q. What is the effect on retail rates, by rate**  
22 **schedule, of the proposed settlement?**

23           A. The following table reflects the agreed-upon  
24 percentage increase by schedule for electric service:

<u>Rate Schedule</u>	<u>Increase in Base Rates</u>	<u>Increase in Billing Rates</u>
Residential Schedule 1	0.9%	0.9%
General Service Schedules 11/12	0.5%	0.5%
Large General Service Schedules 21/22	0.6%	0.6%
Extra Large General Service Schedule 25	0.6%	0.6%
Clearwater Paper Schedule 25P	0.4%	0.4%
Pumping Service Schedules 31/32	0.7%	0.7%
Street & Area Lights Schedules 41-48	<u>0.8%</u>	<u>0.8%</u>
<b>Overall</b>	<b><u>0.7%</u></b>	<b><u>0.7%</u></b>

The following table reflects the agreed-upon percentage increase by schedule for natural gas service:

<u>Rate Schedule</u>	<u>Increase in Base Rates</u>	<u>Increase in Billing Rates</u>	<u>Billing Increase Net of New &amp; Expiring Rebate</u>
General Service Schedule 101	7.7%	4.1%	5.3%
Large General Service Schedules 111/112	3.7%	1.5%	3.1%
Interrupt. Sales Service Schedules 131/132	7.5%	2.7%	4.8%
Transportation Service Schedule 146*	<u>5.2%</u>	<u>5.2%</u>	<u>3.1%</u>
<b>Overall</b>	<b><u>6.9%</u></b>	<b><u>3.5%</u></b>	<b><u>4.8%</u></b>

\* excludes commodity and interstate pipeline transportation costs

**Q. What are the residential bill impacts if the Commission approves the Settlement Stipulation?**

A. An electric residential customer using an average of 929 kilowatt hours per month would see a \$0.75, or 0.9%, increase per month for a revised monthly bill of \$85.74.

A natural gas residential customer using an average of 61 therms per month would see a \$3.19, or 5.4%, increase per month for a revised monthly bill of \$62.41.

1 **III. FIXED COST ADJUSTMENT MECHANISMS**

2 **Q. Please explain the settlement terms relating to**  
3 **the Fixed Cost Adjustment ("FCA") Mechanisms.**

4 A. The Stipulation includes electric and natural  
5 gas FCA mechanisms. The FCA is a mechanism designed to  
6 break the link between a utility's revenues and a  
7 consumer's energy usage. The Company's actual revenue,  
8 based on kilowatt-hour and therm sales, will vary, up or  
9 down, from the level set by the IPUC. This could be due  
10 to changes in conservation, weather or the economy.

11 The Parties have agreed upon a Revenue-Per-Customer  
12 FCA for electric and natural gas operations. The FCA  
13 will compare actual FCA revenues to allowed FCA revenues  
14 determined on a per-customer basis, with any differences  
15 deferred for later rebate or surcharge. Customers in the  
16 FCA will be segmented into Rate Groups (Residential and  
17 Non-Residential), and further categorized as either  
18 "Existing Customers" or "New Customers."

19 **Q. What is the term of the FCA Mechanisms?**

20 A. The Parties agreed to an initial FCA term of  
21 three years, with a review of how the mechanisms have  
22 functioned conducted by Avista, Staff, and other  
23 interested parties following the end of the second full-



1 year. Avista may seek to extend the term of the  
2 mechanism prior to its expiration.

3 **Q. You mentioned that customers will be combined**  
4 **into Rate Groups. Please explain.**

5 A. The Parties have agreed to combine customers  
6 into Rate Groups. For the Electric FCA, customers would  
7 be included in one of two Rate Groups:

- 8 1. Residential - Schedule 1
- 9 2. Commercial - Schedules 11, 12, 21, 22, 31, and  
10 32

11 For the Natural Gas FCA, customers would be included  
12 in one of two Rate Groups:

- 14 1. Residential - Schedule 101
  - 15 2. Commercial - Schedules 111 and 112
- 16

17 **Q. Why were certain customers excluded from the**  
18 **agreed-upon mechanisms?**

19 A. For the electric FCA, Street and Area Lighting  
20 customers served on Schedules 41-49 were excluded because  
21 the fixed costs to serve them are recovered in their flat  
22 monthly rates, and therefore fixed cost recovery is not  
23 dependent upon customer usage. Extra Large General  
24 Service Schedule 25 and Extra Large General Service to  
25 Clearwater Paper Schedule 25P were excluded from the  
26 mechanism primarily because these customers tend to be  
27 higher load factor customers. With a higher load factor,

1 the Company believes that the recovery of fixed costs  
2 from these customers is less volatile versus the other  
3 schedules, and as such inclusion in the FCA at this time  
4 is not necessary.

5 In addition, for these large-use customers, Avista  
6 has more direct contact with these customers regarding  
7 future plans that may increase or decrease their loads.  
8 These changes in retail load, whether they be related to  
9 energy efficiency measures or for other reasons, are  
10 easier to identify and reflect in a general rate case,  
11 than for other rate schedules that have a large number of  
12 lower-usage customers.

13 For the natural gas FCA, the Parties have agreed to  
14 remove Schedules 131 and 132 from the mechanism because  
15 only one customer was served on these schedules in the  
16 test year.<sup>1</sup> Finally, Schedule 146 transportation  
17 customers were not included in the design of the FCA  
18 because, like Schedule 25 customers, they tend to have  
19 less volatile usage (higher load factor), and future  
20 changes in their usage are more easily identified and  
21 reflected in general rate filings.

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<sup>1</sup> The one Schedule 132 customer recently moved from interruptible service to firm service under Schedule 112.

1           **Q.     Have you prepared a simplified calculation**  
2           **showing how the FCA mechanism works?**

3           A.     Yes.   While the components of the electric and  
4           natural gas FCA mechanisms are illustrated in Appendices  
5           B and C of the Settlement Stipulation (Andrews Exhibit  
6           No. 1), Table No. 1 below is an illustrative example of  
7           how the electric mechanism works.   The example is for  
8           only January 2016, and provides the base authorized  
9           values as well as the calculation of the monthly deferral  
10          using an illustrative number of customers, energy usage,  
11          and actual monthly revenue.

**Table No. 1:**

**Electric Fixed Cost Adjustment Mechanism -  
Sample Calculation for Residential Customers**

	<u>Source</u>	<b>January 2016 <u>Authorized</u></b>
<u>January 2016 Authorized Values</u>		
a January FCA Revenue per Customer	<i>Appendix B, P.3, L.15</i>	\$81.83
b Basic Charge	<i>Appendix D, P. 2</i>	\$5.25
c Load Change Adjustment Rate	<i>Appendix B, P.1, L. 5</i>	\$0.02281
d January # of Customers	<i>Appendix B, P.2</i>	102,923
e January # of kWh Sales	<i>Appendix B, P.3, L. 3</i>	131,964,665
	<u>Source</u>	<b>January 2016 <u>Example</u></b>
<u>January 2016 Actual Results</u>		
f Actual January # of Customers	<i>Illustrative</i>	103,300
g Less New Customers*	<i>Illustrative</i>	175
h Actual January # of Existing Customers	<i>= f-g</i>	103,125
i FCA Revenue Per Customer (Authorized)	<i>= a</i>	\$81.83
j FCA Revenue (Authorized)	<i>= h * i</i>	\$8,438,719
k Actual January Existing Customer Revenue	<i>Illustrative</i>	\$12,000,000
l Actual January kWh Usage	<i>Illustrative</i>	132,000,000
m Basic Charge Revenue	<i>= b * h</i>	\$541,406
n Variable Production/Transmission Revenue	<i>= l * c</i>	\$3,010,920
o FCA Revenue (Actual)	<i>= k - m - n</i>	\$8,447,674
p <b>January Surcharge/(Rebate)</b>	<i>= j - o</i>	<b>(\$8,955)</b>

\* New customers will be tracked using a different FCA Revenue Per Customer as agreed to in the Stipulation.

The illustrative example provided above would be similar for natural gas customers. The components for the natural gas FCA are provided in Appendix C to the Stipulation (Andrews Exhibit No. 1).

1           **Q.    Would you please describe how Existing**  
2 **Customers and New Customers would be treated in the FCA**  
3 **mechanisms?**

4           A.   Yes.    The Parties have agreed that revenue  
5 related to certain items discussed below would not be  
6 included in the FCA for new customers.   The result is  
7 that the Fixed Cost Adjustment Revenue-Per-Customer for  
8 new customers will be less than the Fixed Cost Adjustment  
9 Revenue-Per-Customer for existing customers.   For new  
10 electric customers added after the test period, recovery  
11 of incremental revenue related to fixed production and  
12 transmission costs would be excluded from the electric  
13 FCA.   For new natural gas customers added after the test  
14 period, recovery of incremental revenue related to fixed  
15 production and underground storage facility costs would  
16 be excluded.   These modifications are included in  
17 Appendices B and C to the Stipulation (Andrews Exhibit  
18 No. 1).

19           **Q.    Please describe how Avista will report on the**  
20 **mechanisms.**

21           A.   Avista will file, within 45 days of the end of  
22 each quarter, a report detailing the FCA activity by  
23 month.   The reporting will also include information  
24 related to the deferrals by rate group, what the

1       deferrals would have been if tracked by rate schedule,  
2       use and revenue-per-customer for existing and new  
3       customers, and other summary financial information.  
4       Avista will provide such other information as may be  
5       reasonably requested, from time to time, in the future  
6       quarterly reports.

7               **Q.   Please provide information related to when**  
8       **the Company would file for a rate adjustment under the**  
9       **proposed FCA.**

10              A.   On or before July 1, the Company will file a  
11       proposed rate adjustment surcharge or rebate based on the  
12       amount of deferred revenue recorded for the prior January  
13       through December time period. The rate adjustment would  
14       be calculated separately for each Rate Group, with the  
15       applicable surcharge or rebate recovered from each group  
16       on a uniform cents per kWh or per therm basis. The  
17       proposed tariff (Schedule 75 for electric and Schedule  
18       175 for natural gas) included with that filing would  
19       include a rate adjustment that recovers/rebates the  
20       appropriate deferred revenue amount over a twelve-month  
21       period effective on October 1 for electric (to match with  
22       Power Cost Adjustment and Residential Exchange annual  
23       rate adjustments time period), and November 1st for

1 natural gas (to match with the annual Purchased Gas Cost  
2 Adjustment rate adjustment time period).

3 The deferred revenue amount approved for recovery or  
4 rebate would be transferred to a balancing account and  
5 the revenue surcharged or rebated during the period would  
6 reduce the deferred revenue in the balancing account.  
7 After determining the amount of deferred revenue that can  
8 be recovered through a surcharge (or refunded through a  
9 rebate) by Rate Group, the proposed rates under Schedules  
10 75 and 175 would be determined by dividing the deferred  
11 revenue to be recovered by Rate Group by the estimated  
12 kWh sales (Electric FCA) or therm sales (Natural Gas FCA)  
13 for each Rate Group during the twelve-month recovery  
14 period.

15 Any deferred revenue remaining in the balancing  
16 account at the end of the amortization period would be  
17 added to the new revenue deferrals to determine the  
18 amount of the proposed surcharge/rebate for the following  
19 year.

20 **Q. Would you describe the accounting for the**  
21 **proposed electric and natural gas FCA?**

22 A. Yes. Avista will record the deferral in account  
23 186 - Miscellaneous Deferred Debits. The amount approved  
24 for recovery or rebate would then be transferred into a

1 Regulatory Asset or Regulatory Liability account for  
2 amortization. On the income statement, the Company would  
3 record both the deferred revenue and the amortization of  
4 the deferred revenue through Account 456 (Other Electric  
5 Revenue), or Account 495 (Other Gas Revenue), in separate  
6 sub-accounts. The Company would file quarterly reports  
7 with the Commission showing pertinent information  
8 regarding the status of the current deferral. This  
9 report would include a spreadsheet showing the monthly  
10 revenue deferral calculation for each month of the  
11 deferral period (January - December), as well as the  
12 current and historical monthly balance in the deferral  
13 account.

14 **Q. Will interest accrue on the unamortized**  
15 **balance?**

16 A. Yes, interest will be accrued on the  
17 unamortized balance in the FCA balancing accounts at  
18 the Customer Deposit Rate.<sup>2</sup>

19 **Q. Is there an agreed-upon limitation as to the**  
20 **amount of an FCA surcharge?**

21 A. Yes. An FCA surcharge, by rate group, cannot  
22 exceed a 3% annual rate adjustment, and any unrecovered

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<sup>2</sup> Based on Order No. 33187 in Case No. GNR-U-14-12, the deposit rate for 2015 is 1.0%. The rate is updated annually.



1 balances will be carried forward to future years for  
2 recovery. There is no limit to the level of the FCA  
3 rebate.

4 **IV. OTHER ELEMENTS OF THE STIPULATION**

5 **Q. Please explain the settlement terms relating to**  
6 **the PCA authorized level of expenses.**

7 A. The new level of power supply revenues,  
8 expenses, retail load and Load Change Adjustment Rate  
9 resulting from the January 1, 2016 settlement revenue  
10 requirement for purposes of monthly PCA mechanism  
11 calculations are detailed in Appendix A of the  
12 Stipulation (Andrews Exhibit No. 1).

13 **Q. Please explain the customer service-related**  
14 **issues agreed upon in the Settlement Stipulation.**

15 A. The Parties have agreed upon two customer  
16 service-related issues. First, the Company and interested  
17 parties will meet and confer prior to the Company's next  
18 general rate case in an effort to identify low income  
19 customers served by the Company, quantify the number of  
20 customers so identified, and determine those customers'  
21 usage patterns. An initial meeting shall occur no later  
22 than June 30, 2016, with follow-up meetings to occur as  
23 the attendees may deem appropriate.

1           Second, the Company and interested parties will meet  
2 and confer prior to the Company's next general rate  
3 filing in order to assess the Low Income Weatherization  
4 and Low Income Energy Conservation Education Programs and  
5 discuss appropriate levels of cost-effective, low-income  
6 weatherization funding in the future. An initial meeting  
7 shall occur no later than June 30, 2016, with follow-up  
8 meetings to occur as the attendees may deem appropriate.

9

10

**V. CUSTOMER SERVICE PROGRAMS**

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**Q. Does the Company have programs in place to mitigate the impacts on customers of the proposed rate increases?**

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A. Yes. We have a history of making it a priority within our Company to maintain meaningful programs to assist our customers that are least able to pay their energy bills. We also have programs to assist our entire customer base, i.e., not just our low-income customers. Some of the key programs that we offer or support are as follows:

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- **DSM Energy Efficiency Programs and Funding.** The Company offers a broad array of energy efficiency program measures that provide customers with increased opportunity to manage their energy bills. In 2015, Avista has hosted two Energy Fairs, one in Lewiston, and the other in Post Falls. Over 500 customers were in attendance and received energy

- 1 efficiency tips and kits that included low cost/no  
2 cost ways to reduce energy consumption.  
3
- 4 • **Project Share.** Project Share is a voluntary program  
5 allowing customers to donate funds that are  
6 distributed through community action agencies to  
7 customers in need. In the 2014/2015 heating season,  
8 Avista Utilities' customers, employees and Avista  
9 Corp donated \$123,528 which was directed to Idaho  
10 Community Action Agencies.  
11
  - 12 • **Comfort Level Billing.** The Company offers the  
13 option for all customers to pay the same bill amount  
14 each month of the year by averaging their annual  
15 usage. Under this program, customers can avoid  
16 unpredictable winter heating bills.  
17
  - 18 • **Payment Arrangements.** The Company's Contact Center  
19 Representatives work with customers to set up  
20 payment arrangements to pay energy bills.  
21
  - 22 • **CARES Program.** Customer Assistance Referral and  
23 Evaluation Services provide assistance to special-  
24 needs customers through access to specially trained  
25 (CARES) representatives who provide referrals to  
26 area agencies and churches for help with housing,  
27 utilities, medical assistance, etc.  
28
  - 29 • **Senior Energy Outreach:** Avista has developed  
30 specific outreach efforts to reach our more  
31 vulnerable customers (seniors and disabled  
32 customers) with bill paying assistance and energy  
33 efficiency information that emphasizes comfort and  
34 safety. Some examples of this effort are as follows:  
35
    - 36 • **Senior Publications:** Avista has created a  
37 one-page advertisement that has been placed  
38 in senior resource directories and targeted  
39 senior publications to reach seniors with  
40 information about energy efficiency, Comfort  
41 Level Billing, Avista CARES and energy  
42 assistance. A brochure with the same  
43 information has also been created for  
44 distribution through senior meal delivery  
45 programs and other senior home-care programs.  
46

1                   • **Senior Energy Workshops:** With the help of  
2                   the Avista Conservation Energy Education  
3                   Team, 5 Energy Workshops have been  
4                   facilitated in 2015, with more to come later  
5                   this year. Approximately, 150 seniors and  
6                   low-income individuals were reached and given  
7                   Home Energy Saving kits along with learning  
8                   about low-cost/no-cost ways to reduce energy  
9                   use.

10  
11                   **Q. Does this conclude your pre-filed direct**  
12                   **testimony?**

13                   A. Yes, it does.